

## COUNTY EXECUTIVE'S 2007 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950  
FUND: General - 0001

### OPERATING AUTHORITY & PURPOSE

Pursuant to the provisions of Section 59.51(2) of the Wisconsin Statutes, the County Board may represent the County and have management of the

business and concerns in all cases where no other provision is made.

BUDGET SUMMARY				
	2005 Actual	2006* Budget	2007 Budget	2006/2007 Change
Health Benefits-Hospital, Professional, Major Medical & Dental	\$ 120,243,817	\$ 125,166,827	\$ 135,110,570	\$ 9,943,743
Employee Group Life Insurance	2,089,718	1,683,661	1,767,800	84,139
Annuity - County Mandatory Contribution	45,185	42,000	42,000	0
Retirement System Contribution-OBRA	365,000	462,000	529,000	67,000
Retirement System Contribution	35,370,000	27,400,000	52,765,000	25,365,000
Medicare Reimbursement to Retired Employees	4,662,442	5,329,377	6,676,000	1,346,623
Health Benefits-Consultant Fees	99,813	183,833	250,000	66,167
Local Transportation (Transit Pass Program)	349,361	342,162	576,828	234,666
Other Contributions	1,141,203	1,328,084	1,328,084	
Personnel Related Costs	0	0	128,837	128,837
Actual Adjustment	9,950			
<b>Total Expenditures</b>	\$ 164,376,489	\$ 161,937,944	\$ 199,174,119	\$ 37,236,175
<b>Abatements</b>	(155,198,381)	(153,803,899)	(191,244,217)	(37,440,318)
<b>Total Direct Revenue</b>	\$ 8,055,820	\$ 8,134,045	\$ 7,929,902	\$ (204,143)
<b>Direct Property Tax Levy</b>	\$ 1,122,288	\$ 0	\$ 0	\$ 0

\* Approximately \$117,000,000 was budgeted for health insurance expenditures for 2006. In addition, the 2006 Budget estimated an additional \$10,200,000 in cost savings further reducing health insurance expenditures to \$106,800,000. The \$10,200,000 in additional cost savings was reflected in the Appropriation for Contingencies (Org. Unit 1945) and Wage Supplemental (Org. Unit 1972) accounts in the 2006 Budget.

\*\*Five-year comparisons of budget and actual experience are based on adjusted budget figures.\*\*

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### **5403 - Health Benefits - Hospital, Professional, Major Medical and Dental Expense**

Increase \$9,943,743, from \$125,166,827 to \$135,110,570

This appropriation provides for the costs associated with the following health benefits:

	2006 <u>Budget</u>	2007 <u>Budget</u>	2006/2007 <u>Change</u>
Basic Health Benefits, Including Major Medical	\$ 73,888,892	\$ 129,529,570	\$ 55,640,678
Mental Health/Substance Abuse/EAP Carve-Out	1,193,013	1,312,300	119,287
Employee Assistance Program	75,303	84,500	9,197
Health Maintenance Organizations (HMO)	42,537,900	0	(42,537,900)
County Dental Plan	1,435,836	1,579,400	143,564
Dental Maintenance Organizations (DMO)	2,244,800	2,469,300	224,500
Employee Health Plan Waiver	135,500	135,500	0
2005 Run Out	3,055,583	0	(3,055,583)
2005 Run Out Admin Exp	600,000	0	(600,000)
<b>Total Health Benefit Cost</b>	<b>\$ 125,166,827</b>	<b>\$ 135,110,570</b>	<b>\$ 9,943,743</b>

In 2006, the County entered into a four-year contract with Wisconsin Physician Services (WPS), Inc. to provide health insurance coverage. For 2007, the estimated expenditures for health insurance of \$129,529,570 are based on a conversion from a fully insured to a self-insured health care model. The expenditure estimate is based on actual health insurance claims data and actual enrollment data for 2006 at the time of publication. The estimate assumes an inflation/growth factor for both the overall cost of providing health insurance and number of health care contracts. Fixed costs such as administration and stop-loss insurance fees are also included in the estimate provided.

The total cost to the County may rise or fall depending on changes in the number of health care contracts and utilization. In addition, the cost estimate detailed above may change depending on the adoption of collective bargaining agreements with the County's represented employees. For 2007, the County must renegotiate collective bargaining agreements with each union, which could substantially impact health insurance costs.

One position (1.0 FTE) of Healthcare Specialist Coordinator is created within the Department of Administrative Services – Administration and Fiscal Affairs for the purposes of budgeting and fiscal monitoring of health care expenditures, which is charged to the Employee Fringe Benefits budget in 2007.

The Department of Administrative Services will continue to provide quarterly reports to the Committee on Finance and Audit as to the status of health care expenditures in 2007.

A five-year comparison of budget and actual experience for all health benefits (including medical, dental, mental health, employee assistance, run outs, etc.) is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 68,626,405	\$ 69,619,600	1.4
2002	\$ 77,163,449	\$ 81,476,337	5.6
2003	\$ 80,601,606	\$ 84,875,417	5.3
2004	\$101,269,028	\$ 99,201,208	(2.0)
2005	\$112,081,227	\$ 120,243,817	7.3

### **5404 - Employee Group Life Insurance**

Increase \$84,139, from \$1,683,661 to \$1,767,800

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The group life insurance appropriation is based on the coverage amount, which in turn is based on employees' salaries. For 2007, employee group life insurance costs increase \$84,139 from \$1,683,661 to \$1,767,800.

A five-year comparison of budget and actual experience for group life insurance is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 1,938,394	\$ 1,758,717	(9.3)
2002	\$ 1,449,666	\$ 1,450,167	0.0
2003	\$ 1,500,598	\$ 1,514,694	0.9
2004	\$ 1,486,866	\$ 1,799,398	21.0
2005	\$ 1,421,458	\$ 2,089,718	47.0

### **5405 - Annuity - County Mandatory Contribution**

2007 contribution level remains at the 2006 level of \$42,000

The budget for the County's mandatory annuity contribution relates to eligible employees who have been members of the pension system prior to January 1, 1971 at the following rates:

- 8 percent of earnings for Deputy Sheriff
- 8 percent of earnings for Elected Officials
- 6 percent of earnings for Other Employees

A five-year comparison of budget and actual experience for the annuity contribution is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 650,000	\$ 565,861	(12.9)
2002	\$ 525,000	\$ 413,645	(21.2)
2003	\$ 496,375	\$ 349,739	(29.5)
2004	\$ 417,000	\$ 233,178	(44.1)
2005	\$ 313,000	\$ 45,185	(85.6)

### **5406 - Retirement System Contribution - OBRA**

Increase \$67,000, from \$462,000 to \$529,000

The OBRA pension contribution was established as a separate account in 2002 to differentiate from the Employee Retirement System contribution made for full-time County employees. For 2007, the contribution to the OBRA Retirement System is \$529,000.

A five-year comparison of budget and actual experience for the Retirement System Contribution - OBRA is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 250,094	\$ 250,094	0.0
2002	\$ 274,972	\$ 274,972	0.0
2003	\$ 279,727	\$ 279,727	0.0
2004	\$ 348,000	\$ 348,000	0.0
2005	\$ 365,000	\$ 365,000	0.0

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### **5409 - Retirement System Contribution**

Increase by \$25,365,000, from \$27,400,000 to \$52,765,000

The 2007 budget provides \$52,765,000 for the County's contribution to the Milwaukee County Employees Retirement System (ERS).

The proposed budget includes issuing debt to fund the County's existing Unfunded Actuarial Liability for its pension obligations. According to the 2006 report prepared by Buck Consultants and independently reviewed by Cambridge Advisors, the County's current unfunded liability is \$455,020,000. In order to amortize this obligation on the current payment schedule, the County would need to budget in excess of \$1.25 billion during the next 28 years for the payment of this liability including \$33,542,000 in the 2007 budget.

The financing plan, as proposed, would provide an estimated \$6,250,000 in budgetary savings each year including the 2007 budget by reducing the interest accrued on the liability from 8% to current market rates of approximately 6%. In addition to the budgetary savings, funds would annually be placed in a stabilization fund which could be used to completely retire the bonds within 22 years.

In order to accomplish this financing, it will be necessary for the County to issue a combination of debt instruments. Approximately \$157 million is anticipated to be issued as Taxable General Obligation Notes maturing in the years 2007 through 2017. This would allow the County to maximize the amount of principal retired within the first ten years while providing annual budgetary relief.

The balance would be financed by a combination of approximately \$182 million Capital Appreciation Bonds and \$110 million in Variable Rate Notes. The Capital Appreciation Bonds defer interest payments until they mature, thereby allowing for a debt service schedule which more closely matches the amortization schedule for existing liability. The variable rate notes are recommended because they may be repaid at any time (which would be necessary should the County succeed in receiving proceeds from pending litigation); they provide a degree of future budget flexibility; and the notes can be used as a hedge against fluctuation in investment earnings on the assets of the pension fund.

### **5416 - Medicare Reimbursement to Retired Employees**

Increase \$1,346,623 from \$5,329,377 to \$6,676,000

This account provides for County payment of the Medicare Part D premium for retired employees, including their eligible beneficiaries over age 65, who retired with 15 or more years of pension-credited service or are on Disability Medicare. The actual cost of the premium will not be finalized by Congress until November.

A five-year comparison of budget and actual experience for Medicare reimbursement to retired employees is as follows:

<u>Year</u>	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
2001	\$ 2,752,582	\$ 2,898,726	5.3
2002	\$ 3,320,970	\$ 2,930,049	(11.8)
2003	\$ 3,714,216	\$ 3,805,265	2.5
2004	\$ 4,028,728	\$ 4,007,933	(0.5)
2005	\$ 4,610,081	\$ 4,662,442	1.1

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Under the Medicare Prescription Drug Improvement and Modernization Act of 2003 and implementing regulations at 42 C.F.R. subpart R (Medicare Part D), the County estimates revenue of approximately \$2.0 million in 2007. This revenue will be deposited into a non-departmental account (Org. Unit 1969—Medicare Part D Revenue).

### **6148 - Health Benefits - Consultant Fees**

Increase \$66,167, from \$183,833 to \$250,000

An appropriation of \$250,000 is included to retain outside consultants to assist the Department of Administrative Services – Human Resources and the Department of Administration – Administration and Fiscal Affairs staff in actuarial analysis, ad hoc reporting, requests for proposal and contract/rate negotiations, and other areas where an additional expertise in health care advisory services may be needed.

### **6804 - Local Transportation (Transit Pass Program)**

Increase \$234,666, from \$342,162 to \$576,828

An appropriation of \$576,828 is included to cover the continuation of the County's corporate transit pass program. The County (as the employer) purchases quarterly passes for \$189.00 each. For 2007, the employee reimburses the County \$94.50 (or 50 percent of the total cost of the pass) per quarter/\$31.50 per month through a payroll deduction.

### **8299 – Other Contributions**

2007 contribution level remains at the 2006 level of \$1,328,084.

Costs associated with the County's obligation to United Regional Medical Services in the amount of \$1,328,084 for pension-related expenses from the closure of John L. Doyne Hospital are included in this budget for 2007.

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